FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: June 5, 2015
Comments Due: August 4, 2015

Investments—Equity Method and Joint Ventures (Topic 323)

Simplifying the Equity Method of Accounting

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 323 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing written comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2015-280, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft and is requesting comments by August 4, 2015. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing a written letter to director@fasb.org, File Reference No. 2015-280
- Sending written comments to "Technical Director, File Reference No. 2015-280, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

Investments—Equity Method and Joint Ventures (Topic 323)

Simplifying the Equity Method of Accounting

June 5, 2015

Comment Deadline: August 4, 2015

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update) and What Are the Main Provisions?

The Board is issuing this proposed Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

The Board is proposing to eliminate the requirement for an equity method investor to account for the basis difference, which is the difference between the cost of an investment and the investor's proportionate share of the net assets of the investee. Under existing equity method guidance, an entity determines the acquisition date fair value of the identifiable assets and liabilities assumed in the same manner as for a business combination. The entity's proportionate share of the difference between the fair value of the investee's identifiable assets and liabilities assumed and the book value of recorded assets and liabilities generally must be accounted for in net income in subsequent periods.

Stakeholders have told the Board that accounting for the basis difference of equity method investments adds cost and complexity to financial statement reporting without improving the usefulness of the information provided to investors. Stakeholders noted that determining the acquisition date fair value of an investee's identifiable assets and liabilities assumed can be costly and, in some cases, an entity may not have access or may have limited access to the information necessary to perform the assessment because it does not control the investee.

The proposed amendments would eliminate the requirement to separately account for the basis difference of equity method investments. An entity would recognize its equity method investment at its cost and would no longer determine the acquisition date fair value of the investee's identifiable assets and liabilities assumed.

The proposed amendments also would eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held. The proposed amendments would no longer require an equity method investor to retroactively perform a fair value allocation of the basis difference as of the original purchase date of the investment and adjust prior earnings for equity method earnings, which include consideration of intercompany profits and losses, amortization of the basis difference, and impairment testing.

Stakeholders have told the Board that the requirement to retroactively adopt the equity method of accounting is costly and time consuming. The Board also learned from stakeholders that this requirement does not provide a clear benefit to financial statement users.

What Are the Transition Requirements and When Would the Amendments Be Effective?

The proposed amendments to eliminate accounting for the basis difference of equity method investments would be applied on a modified prospective basis. For existing equity method investments, accounting for the basis difference would cease as of the effective date of the proposed guidance, and any remaining basis difference would be treated as part of the basis of the investment.

An entity would be required to disclose the nature of and reason for the change in accounting principle upon transition. An entity would provide that disclosure in the first annual period after the entity's adoption date and in the interim periods within the first annual period. For existing equity method investments for which an entity has ceased accounting for any basis difference, the entity also would disclose in the first annual period of adoption the amount of amortization recognized in the previous comparable interim or annual period.

An entity would be required to apply the proposed amendments to eliminate retroactive application of the equity method prospectively to ownership level increases occurring after the proposed amendments become effective. No disclosures would be required at transition.

The effective date, as well as whether early adoption would be permitted for the elimination of accounting for the basis difference, will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Question 1: Should accounting for the basis difference of equity method investments as if the investment were a consolidated subsidiary be eliminated? Why or why not? Would amortization of the entire basis difference through equity method earnings be preferable? If so, what would be the suggested amortization period?

Question 2: Should the accounting for capitalized interest, which adds to the basis of an entity's equity method investment and is amortized, also be eliminated for equity method investments? Why or why not?

Question 3: Should an entity be required to apply the proposed amendments related to accounting for the basis difference on a modified prospective basis as of the effective date? Why or why not?

Question 4: Should an entity no longer be required to retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest? Why or why not?

Question 5: Should the proposed guidance to eliminate the requirement to retroactively adopt the equity method of accounting be applied prospectively? Why or why not?

Question 6: How much time will be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

Question 7: Would the proposed amendments meet the objective of the Simplification Initiative, which is to improve GAAP by reducing cost and complexity while maintaining or improving the usefulness of the information provided to users of financial statements? Why or why not?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 323-10

2. Amend paragraphs 323-10-35-5, 323-10-35-7 through 35-8, and 323-10-35-32A through 35-33 and supersede paragraphs 323-10-35-13 through 35-14 and their related heading and 323-10-35-34, with a link to transition paragraph 323-10-65-2, as follows:

Investments—Equity Method and Joint Ventures—Overall

Subsequent Measurement

> The Equity Method—Overall Guidance

323-10-35-5 The amount of the adjustment of the carrying amount shall be included in the determination of net income by the investor, and such amount shall reflect adjustments similar to those made in preparing consolidated statements including the following adjustments:

a. Intra-entity profits and losses. Adjustments to eliminate intra-entity profits and losses.
b. <u>Subparagraph superseded by Accounting Standards Update 2015-XX.</u>~~Basis differences. Adjustments to amortize, if appropriate, any difference between investor cost and underlying equity in net assets of the investee at the date of investment.~~
c. Investee capital transactions. Adjustments to reflect the investor's share of changes in the investee's capital.
d. Other comprehensive income.

> > Intra-entity Gains and Losses

323-10-35-7 Intra-entity profits and losses shall be eliminated until realized by the investor or investee~~ as if the investee were consolidated~~. Specifically, intra-entity profits or losses on assets still remaining with an investor or investee shall be eliminated, giving effect to any income taxes on the intra-entity transactions, except for both of the following:

a. A transaction with an investee (including a joint venture investee) that is accounted for as a deconsolidation of a subsidiary or a derecognition of a group of assets in accordance with paragraphs 810-10-40-3A through 40-5
b. A transaction with an investee (including a joint venture investee) that is accounted for as a change in ownership transaction in accordance with paragraphs 810-10-45-21A through 45-24.

323-10-35-8 Because an investment reported under the equity method is presented as a single line item in the investor's financial statements ~~a one-line consolidation~~, the details reported in the investor's financial statements under the equity method will not be the same as would be reported in consolidated financial statements under Subtopic 810-10. All intra-entity transactions are eliminated in consolidation under that Subtopic, but under the equity method, intra-entity profits or losses are normally eliminated only on assets still remaining on the books of an investor or an investee.

~~**> > Basis Differences**~~

323-10-35-13 Paragraph superseded by Accounting Standards Update 2015-XX. ~~A difference between the cost of an investment and the amount of underlying equity in net assets of an investee shall be accounted for as if the investee were a consolidated subsidiary. Paragraph 350-20-35-58 requires that the portion of that difference that is recognized as goodwill not be amortized. However, if a **private company** elects the accounting alternative in Subtopic 350-20 on goodwill, the portion of that difference that is recognized as goodwill shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Paragraph 350-20-35-59 explains that equity method goodwill shall not be reviewed for impairment in accordance with paragraph 350-20-35-58. However, equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.~~

323-10-35-14 Paragraph superseded by Accounting Standards Update 2015-XX. ~~See paragraph 323-10-35-34 for related guidance when an investment becomes subject to the equity method.~~

> Decrease in Investment Value

323-10-35-32A An equity method investor shall not separately test an investee's underlying asset(s) for impairment. ~~However, an equity investor shall recognize its share of any impairment charge recorded by an investee in accordance with the guidance in paragraphs 323-10-35-13 and 323-10-45-1 and consider the effect, if~~

~~any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge.~~

> Change in Level of Ownership or Degree of Influence

> > Increase in Level of Ownership or Degree of Influence

323-10-35-33 Paragraph 323-10-15-12 explains that an investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph 323-10-15-3 (that is, acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). If an investment qualifies for use of the equity method (that is, falls within the scope of this Subtopic), the investor shall add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes eligible for equity method accounting. The investment account shall not be adjusted retroactively under the conditions in this paragraph. ~~The investment, results of operations (current and prior periods presented), and retained earnings of the investor shall be adjusted retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the investment was held. The amount of interest cost capitalized through application of Subtopic 835-20 shall not be changed if restating financial statements of prior periods.~~

323-10-35-34 Paragraph superseded by Accounting Standards Update 2015-XX. ~~The carrying amount of an investment in common stock of an investee that qualifies for the equity method of accounting as described in paragraph 323-10-15-12 may differ from the underlying equity in net assets of the investee. The difference shall affect the determination of the amount of the investor's share of earnings or losses of an investee as if the investee were a consolidated subsidiary. However, if the investor is unable to relate the difference to specific accounts of the investee, the difference shall be recognized as goodwill and not be amortized in accordance with Topic 350.~~

3. Amend paragraph 323-10-50-3, with a link to transition paragraph 323-10-65-2, as follows:

Disclosure

323-10-50-3 All of the following disclosures generally shall apply to the equity method of accounting for investments in common stock:

a. Financial statements of an investor shall disclose all of the following parenthetically, in notes to financial statements, or in separate statements or schedules:
   1. The name of each investee and percentage of ownership of common stock.

2. The accounting policies of the investor with respect to investments in common stock. Disclosure shall include the names of any significant investee entities in which the investor holds 20 percent or more of the voting stock, but the common stock is not accounted for on the equity method, together with the reasons why the equity method is not considered appropriate, and the names of any significant investee corporations in which the investor holds less than 20 percent of the voting stock and the common stock is accounted for on the equity method, together with the reasons why the equity method is considered appropriate.
3. Subparagraph superseded by Accounting Standards Update 2015-XX.~~The difference, if any, between the amount at which an investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference.~~

b. For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price usually shall be disclosed. This disclosure is not required for investments in common stock of **subsidiaries**.

c. If investments in common stock of **corporate joint ventures** or other investments accounted for under the equity method are, in the aggregate, material in relation to the financial position or results of operations of an investor, it may be necessary for summarized information as to assets, liabilities, and results of operations of the investees to be presented in the notes or in separate statements, either individually or in groups, as appropriate.

d. Conversion of outstanding convertible securities, exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on an investor's share of reported earnings or losses. Accordingly, material effects of possible conversions, exercises, or contingent issuances shall be disclosed in notes to financial statements of an investor.

4. Add paragraph 323-10-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2015-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting*

323-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-XX, *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Equity Method of Accounting:*

a. The pending content that links to this paragraph shall be effective for annual periods, and interim periods within those annual periods, beginning after [date to be inserted after exposure].

Basis Differences

b. An entity shall apply the pending content that links to this paragraph to existing equity method investments on a modified prospective basis. The accounting for basis differences would cease as of the effective date and any remaining basis difference would be treated as part of the basis of the investment.

c. An entity shall disclose in the first annual period after the entity's adoption date, and in the interim periods within the first annual period, the following:
   1. The nature and reason for the change in accounting principle
   2. The amount of amortization of the basis difference recognized in the comparable prior period.

Increase in Level of Ownership or Degree of Influence

d. An entity shall apply the pending content that links to this paragraph prospectively to ownership level increases occurring after the effective date.

e. No disclosures shall be required after the entity's adoption date.

Amendments to Subtopic 350-20

5. Supersede paragraphs 350-20-35-58 through 35-59 and their related heading and 350-20-35-81 through 35-82 and their related heading, with a link to transition paragraph 323-10-65-2, as follows:

Intangibles—Goodwill and Other—Goodwill

Subsequent Measurement

General

~~**> > Equity Method Investments**~~

350-20-35-58 Paragraph superseded by Accounting Standards Update 2015-XX. ~~The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 323-10-35-13 (equity method goodwill) shall not be amortized.~~

350-20-35-59 Paragraph superseded by Accounting Standards Update 2015-XX. ~~However, equity method goodwill shall not be reviewed for impairment in accordance with this Subtopic. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.~~

Accounting Alternative

~~**> Equity Method Investments**~~

350-20-35-81 Paragraph superseded by Accounting Standards Update 2015-XX. ~~The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 323-10-35-13 (equity method goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.~~

350-20-35-82 Paragraph superseded by Accounting Standards Update 2015-XX. ~~However, equity method goodwill shall not be reviewed for impairment in accordance with this Subtopic. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.~~

Amendments to Subtopic 805-20

6. Amend paragraph 805-20-15-2, with a link to transition paragraph 323-10-65-2, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Scope and Scope Exceptions

Accounting Alternative

805-20-15-2 A **private company** may make an accounting policy election to apply the accounting alternative in this Subtopic. The guidance in the Accounting Alternative Subsections of this Subtopic applies when a private company is required to recognize or otherwise consider the fair value of intangible assets as a result of any one of the following transactions:

a. Applying the acquisition method (as described in paragraph 805-10-05-4)
b. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~Assessing the nature of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee when applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures~~
c. Adopting fresh-start reporting in accordance with Topic 852 on reorganizations.

Amendments to Subtopic 835-20

7. Amend paragraph 835-20-35-2, with a link to transition paragraph 323-10-65-2, as follows:

Interest—Capitalization of Interest

Subsequent Measurement

> Amortization of Capitalized Interest on an Equity Method Investment

835-20-35-2 This Subtopic requires capitalization of **interest cost** on an investment accounted for by the equity method that has not begun its planned principal operations while the investee has **activities** in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. Under those circumstances, capitalized interest cost may be associated with the estimated useful lives of the investee's assets and amortized over the same period as those assets. ~~Interest capitalized on the investments accounted for by the equity method is amortized consistent with paragraph 323-10-35-13.~~

8. Supersede paragraph 835-20-40-2, with a link to transition paragraph 323-10-65-2, as follows:

Derecognition

835-20-40-1 **Interest cost** is an integral part of the total cost of acquiring a qualifying asset. Therefore, its disposition shall be the same as the disposition of other components of asset cost.

835-20-40-2 <u>Paragraph superseded by Accounting Standards Update 2015-XX.</u> ~~Interest capitalized on an investment accounted for by the equity method shall be accounted for in accordance with paragraph 323-10-35-13.~~

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1 The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing this proposed Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements.

BC3. The proposed Update is a narrow-scope initiative intended to eliminate two requirements under the equity method of accounting—the requirement to account for the basis difference, which is the difference between the cost of an investment and the investor's proportionate share of the net assets of the investee, and the requirement to retroactively apply the equity method of accounting to an investment that qualifies for use of the equity method as a result of an increase in the level of ownership.

Basis Differences

BC4. Topic 323 currently requires an equity method investor to account for its proportionate share of the difference between the fair value of the investee's identifiable assets and liabilities assumed and the book value of recorded assets and liabilities in net income in subsequent periods. Although current guidance requires an equity method investment to be presented as a single line item in the investor's financial statements, the investor must determine the acquisition date fair value of the identifiable assets and liabilities assumed in the same manner as for a business combination in accordance with Topic 805, Business Combinations. An entity must then generally account for that basis difference in a manner consistent with the accounting that would be required if the investee were a consolidated subsidiary.

BC5. To simplify the accounting for equity method investments, the proposed amendments would remove the requirement for an entity to calculate the total basis difference and attribute the basis difference to specific identifiable investee assets and liabilities that have fair values that differ from book values as well as attribute any excess cost to equity method goodwill. The proposed amendments would remove the need for an entity to track the various components of the basis difference (for example, intangible assets, goodwill, and deferred tax liabilities) in what is commonly referred to as memo accounts and account for any resulting amortization.

BC6. The Board considered requiring amortization of the basis difference over a set period, for example, 10 years, or attributing the basis difference to the predominant factor identified as causing the basis difference. The Board ultimately rejected those alternatives because they would not reduce complexity in financial reporting and because the amendments in this proposed Update would provide the most cost-beneficial alternative. The Board concluded that the benefits of accounting for the basis difference for equity method investments are limited at best because the accounting is performed in memo accounts. In some cases, financial statement users are not aware of the requirements to account for the various components of the basis difference and, therefore, do not factor in the accounting for basis difference in their decisions, which are based on GAAP.

BC7. The Board also considered attributing the entire basis difference to equity method goodwill. The Board ultimately rejected that alternative because assigning the entire basis difference to goodwill would be seen as arbitrary if an entity is aware that the basis difference is due to other factors. Additionally, the Board rejected this alternative because assigning the entire basis difference to goodwill would be inconsistent with the definition of *goodwill* in the Codification's Master Glossary.

BC8. In APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, the Accounting Principles Board concluded that the equity method normally requires an investor's net income and stockholder's equity to be the same from application of the equity method as would result from application of consolidation. However, the procedures for applying the equity method set forth by Opinion 18 include requirements that differ from the principles of consolidation. Examples include the requirement for an entity to assess an equity method investment for impairment at the instrument level rather than to assess the underlying assets and liabilities of the investee and the requirement for an entity to discontinue recognizing losses in excess of the carrying amount of the investment unless the entity has guaranteed losses or otherwise is committed to providing further financial support to the investee.

BC9. The Board acknowledges that the application of the equity method may, in some circumstances, result in net income that differs from the net income that would result under consolidation accounting. The Board further acknowledges that the proposed amendments would move the equity method away from what is referred to as "one-line" consolidation. The Board is not troubled by this change because it sees no conceptual basis to account for an investment in an entity in which the investor has the ability to exercise significant influence over an investee in the same manner as an investment in an entity in which the investor has a controlling financial interest; control is different from significant influence.

BC10. In deliberations of the proposed guidance, the Board considered International Financial Reporting Standards (IFRS) and other accounting frameworks. The Board also considered the views expressed by other financial reporting bodies, such as the European Financial Reporting Advisory Group, the Korean Accounting Standards Board, and the Accounting Standards Board of Japan, which have all provided public statements raising questions about the conceptual basis for the equity method of accounting.

Increase in the Level of Ownership Interest

BC11. The Board proposes to eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest. This would improve consistency with IFRS, which does not require retroactive adjustment when an investment qualifies for use of the equity method.

BC12. The Board supports eliminating the requirement to retroactively apply the equity method because that requirement is costly and time consuming and the benefit to users is not clear. An entity often will not have the necessary financial information readily available to retroactively apply the equity method, which creates challenges and could result in inaccuracies. Although an entity would have significant influence and might have access to the appropriate information, the Board concluded that it is not cost-beneficial to retroactively apply the equity method as if the entity previously had significant influence.

BC13. Practitioners have said that entities and auditors spend a considerable amount of time debating the retroactive application because users do not receive a benefit from the restatement and they often are not aware that it occurred.

BC14. The Board considered adding a disclosure of the amount of earnings for all periods presented that would have been recorded if the investment had been accounted for under the equity method in lieu of retroactive application. However, the Board ultimately rejected this alternative because it would require an entity to perform a similar process to that of retroactive application of the equity method without a clear benefit to users and because it is misleading, since the entity was not under the equity method in those prior periods.

Effective Date and Transition

BC15. The Board will decide on the effective date after it considers stakeholders' feedback on how much time they believe would be necessary to adopt the proposed amendments.

Basis Differences

BC16. The Board decided that the proposed amendments to eliminate the accounting for the basis difference would be applied on a modified prospective basis to existing equity method investments. An entity would cease accounting for the basis difference as of the effective date, and any remaining basis difference would be treated as part of the basis of the investment. The Board decided that the benefits of requiring retrospective application of the guidance would not justify the costs.

BC17. The Board decided that disclosures required in the year of adoption would include the nature of and reason for the change in accounting principle and the amount of amortization related to the basis difference of equity method investments recognized in the previous comparable interim or annual period. Additionally, an entity that issues interim financial statements would provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.

Increase in the Level of Ownership Interest

BC18. The Board decided that the proposed amendments related to applying the equity method retroactively when an investment becomes eligible for the equity method would apply prospectively to ownership level increases occurring after the effective date of the change. The Board decided that the benefits of requiring retrospective application of the guidance would not justify the costs.

BC19. The Board decided not to require disclosures in the period of adoption.

Benefits and Costs

BC20. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC21. The Board does not anticipate that an entity would incur significant costs as a result of the amendments in this proposed Update.

BC22. The Board anticipates that the proposed amendments would reduce cost because an entity would no longer have to perform the costly and time-consuming processes of accounting for the basis difference and retroactive application of the equity method when an investment qualifies for the equity method of accounting as a result of an increase in the level of ownership.

BC23. The Board does not anticipate that the proposed amendments would reduce the availability of relevant information because users generally are not aware of the accounting for the basis difference or the retroactive application of the equity method when an investment becomes eligible for the equity method.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at www.fasb.org and finalized as part of the annual release process.